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May Revision

Governor's Budget 1993-94

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Governor
State of California

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1993-94 May Revision Overview

Primary Features of the May Revision

- ✔ Retaining and expanding California jobs is the top priority issue facing the State. Funding services for the State's growing population requires creation of new jobs.

- ✔ Promoting job growth in the manufacturing sector is a critical component of California's recovery. Toward that end, the May Revision proposes setting aside $500 million in FY 94-95 for implementing a sales tax exemption for purchases of manufacturing equipment. This, combined with action on measures to reform California's workers' compensation system and to streamline permitting procedures, will significantly enhance the state's ability to retain and create new jobs.

- ✔ K-12 education gets top priority in the budget. K-12 programs are funded at $4,185 per ADA in FY 93-94, the same level of funding provided in FY 91-92 and FY 92-93. K-12 revenues in FY 94-95 are estimated at $4,200/ADA. At these levels, school districts revenues will increase by $353 million in FY 93-94 and by $589 million in FY 94-95. Total K-12 school district revenue from state and local sources in FY 93-94 will be $21.75 billion.

- ✔ The May Revision proposes that, beginning January 1, 1995, able-bodied AFDC recipients which have been on aid for 5 years would no longer be eligible for cash assistance. Children would retain eligibility for cash assistance and other support services. This change will allow the state to continue funding Medi-Cal benefits and other services for needy families.

- ✔ The May Revision contains no new taxes. The temporary sales tax increases enacted in FY 91-92 will expire on June 30, 1993.

- ✔ Revenues will exceed expenditures in both FY 93-94 and FY 94-95.

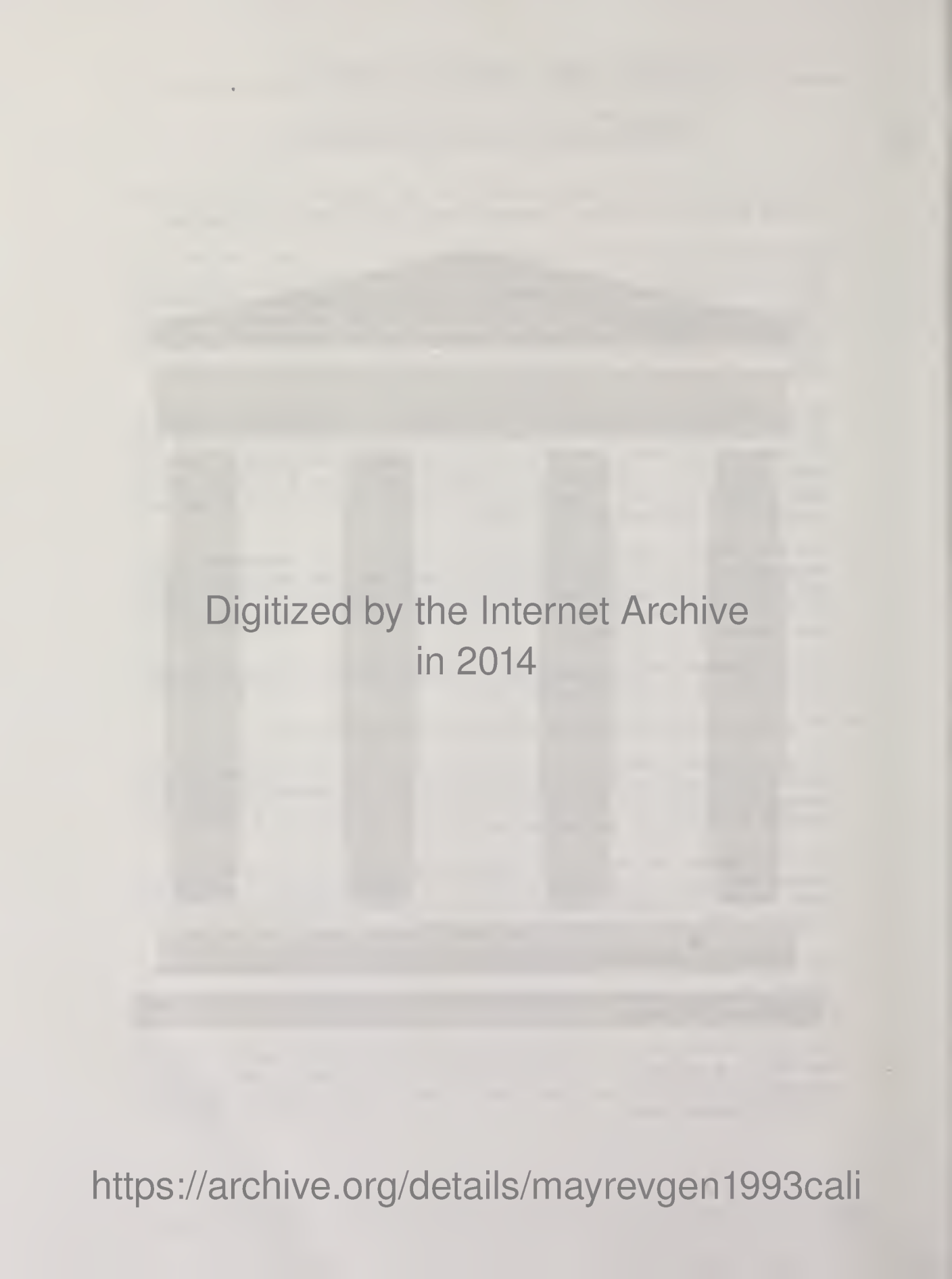
- ✔ The May Revision estimates that the state will end FY 92-93 with a General Fund deficit of $2.7 billion, an increase of $238 million above the January estimate. The change is primarily due to legislative inaction on the Governor's Budget and shortfalls in property tax revenues received by school districts.

- ✔ The May Revision proposes to use existing statutes to pay off this deficit with an external loan to be paid off within 18 months. Proposed legislation would require monthly deposits of existing sales tax revenue into a special account dedicated solely to paying off this loan, further assuring repayment.

- ✔ May Revision revenue forecasts are essentially unchanged from the January forecast.

- ✔ The May Revision proposes uncommitted reserves of $457 million in FY 93-94 and $79 million in FY 94-95.

- ✔ The May Revision proposes General Fund expenditures of $38.2 billion in FY 93-94, which is a decrease of 7.0 percent below FY 92-93 levels. General Fund spending in FY 94-95 is estimated at $41.1 billion, which is virtually identical to FY 92-93 spending levels.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Revenues:
May Revision Summary, p. 5

- ✔ General Fund revenues for FY 92-93 are forecast at $41.0 billion. This is a decline of $1 billion below FY 91-92. The May Revision forecast, however, is $82 million above the January forecast, primarily due to unexpected strength in personal income tax receipts.

- ✔ FY 93-94 revenues are proposed at $40.2 billion, a reduction of $840 million below current year levels. The May Revision forecast is $309 million above the January level, reflected continued growth in the personal income tax, partially offset by weakness in the Bank and Corporations Tax.

- ✔ The May Revision reflects expiration of the 1/2-cent temporary sales tax on June 30, 1993.

Local Government:
May Revision Summary, p. 29

- ✔ The May Revision continues to propose a $2.6 billion property tax shift from local agencies to school districts located within the county in which the tax was collected. This proposal reflects the constitutional priority given to education.

- ✔ This revenue shift should be allocated in proportion to the share of Proposition 13 bailout received by cities, counties and special districts in 1979.

- ✔ With certain exceptions, property tax revenues currently allocated to special districts would be allocated instead to city and county general funds. Local officials would determine spending priorities.

- ✔ The state should repeal all state mandates on local programs not related to public safety, unless specific funding is provided by the state. This additional flexibility is needed to allow local governments to give appropriate priority to public safety.

- ✔ Under current law, county governments may impose a countywide sales tax increase of up to 1/2 cent for general purposes with approval of a majority of local voters. To date, two counties have imposed this tax without facing any legal challenges.

- ✔ In addition, local officials may form public finance authorities empowered to levy a countywide sales tax of up to 1/2 cent for support of education, health, crime prevention and drug abuse services.

Health and Welfare: May Revision Summary, p. 9

- ✔ The May Revision proposes that, beginning January 1, 1995, able-bodied adults receiving AFDC cash assistance who have been on aid for 5 years cumulative time would no longer be eligible for cash assistance. This proposal will maintain cash assistance for the children in the family, and the family would retain eligibility for support services such as food stamps and Medi-Cal. The proposal will result in $53 million in savings in FY 94-95.

- ✔ The May Revision assumes receipt of $324 million in federal SLIAG funds in FY 93-94, as well as $240 million In new federal funds to offset the cost of Medicaid services to undocumented immigrants in both FY 93-94 and FY 94-95. This estimate has been reduced below the $1.2 billion level proposed in January because President Clinton has failed to include the additional funds in his budget request.

- ✔ The May Revision continues the Governor's proposals for welfare reform and repeal of Medi-Cal optional benefits, such as adult dental, acupuncture, and chiropractic services. Implementation of these proposals, however, is delayed until October 1, 1993. Medi-Cal coverage for other optional benefits, such as outpatient drugs and optometry, would be retained. The proposal also retains optional eligibility categories, such as medically needy families and medically indigent children..

- ✔ Because of legislative inaction on the Governor's Budget and declining property tax revenue to school districts, the May Revision proposes additional reductions in health and social services programs. These include: (1) $87 million related to hospital contract rates, (2) $20.9 million from Proposition 99 funds, (3) $50 million from SB 855 intergovernmental transfers, (4) reductions in SSP grants to the federal minimum by January 1, 1994, for a savings of $177 million in FY 93-94 and $367 million in FY 94-95, and (5) delaying implementation of foster care reforms, for a savings of $29.8 million.

- ✔ The May Revision reflects the receipt of new federal funds to offset the state cost of providing prenatal services to undocumented immigrants, for a savings of $127 million in FY 93-94 and $41.2 million in FY 94-95.

Youth and Adult Corrections: May Revision Summary, p. 19

- ✔ The state prison inmate population is projected to increase from 113,100 on June 30, 1993 to 122,300 on June 30, 1994. This is an increase of 3,100 inmates above the level projected in January. The effect of the budget year changes is an increase of $55.4 million in support costs, including activation of Ironwood State Prison (Riverside II) in January 1994. Without this activation, the institutional population would be 185 percent of the design capacity of the prison system.

- ✔ The Governor's Budget reflected the receipt of $250 million in new federal funds to pay for the cost of incarcerating undocumented immigrants convicted of felonies. Because President Clinton failed to provide these funds in his budget, the May Revision no longer reflects receipt of these funds.

GENERAL FUND UPDATE

($ In Millions)

	1992-93	1993-94	1994-95
RESOURCES:			
Prior Year Balance	-$2,168	$520	$867
Revenues and Transfers	41,024	40,184	42,300
Loan Repayment	--	-1,625	-1,125
Net Revenues and Transfers	$41,024	$38,559	$41,175
TOTAL RESOURCES	**$38,856**	**$39,079**	**$42,042**
EXPENDITURES	**$41,085**	**$38,212**	**$41,053**
FUND BALANCE	**-$2,229**	**$867**	**$989**
Reserve for Encumbrances	$410	$410	$410
Reserve for Proposition 98	$110	--	--
Reserve for Economic Uncertainties	-$2,749	$457	$79
18 Month Payoff	$2,749	--	--
Manufacturing Sales Tax Exemption	--	--	$500

The Economy

THE ECONOMY

The Nation. The national economy appears to be strengthening slowly, with gains in business investment and housing leading the way. The 1993 forecast of real Gross Domestic Product has been raised to 2.7 percent, with 2.4 percent forecast for 1994.

Favorable trends for several sector were largely responsible for the upward revision from the Budget forecast:

·Housing starts have moved up from the recession low, and recent permit data suggest further gains in coming months.

·Business investment is rising, with computers and other electronic equipment leading the way.

·Consumer spending on big ticket items is slowly picking up speed. New car sales have accelerated in recent weeks, even though consumers still appear reluctant to expand debt levels significantly.

The recovery has yet to spread throughout the economy, however. A number of sectors remain weak.

·The nation's trade balance, for instance, has deteriorated in recent months, as rising imports are far outpacing the gain in exports. Exports are being held in check by recession or near-recessionary-conditions in other industrial nations.

·Investment in nonresidential structures continues to edge lower. To a large extent this is a reflection of over-capacity constraints such as those existing in Southern California.

·Government at all levels is faced with cutbacks in spending as expenditures outpace available revenues.

·Employment gains have been limited since the trough of the recession. Only a million jobs have been recovered, with most of these in the service sector. The bellwether goods producing industries have yet to show any resiliency. In fact, defense spending cuts continue to exert downward pressure on a large part of manufacturing.

·The recovery, even though anemic, is drawing workers back into the labor force, thereby keeping pressure on the labor market. The jobless rate is expected to hover around 7 percent through 1994.

The first quarter 1993 slowdown in activity has raised questions about a possible "third leg" of the recession. The normal stimulus for recovery has certainly been lacking. Monetary authorities have taken interest rates down to the point that both the potential for and effectiveness of further cuts is probably limited. Financial institutions have announced plans to step up lending, but the boost to activity that this would give has yet to materialize. Add to this federal budget problems and the possibility of a bounce-back recovery is effectively eliminated.

For this forecast, it has been assumed that the first quarter 1993 set-back was temporary, due largely to unusual seasonal factors, and that activity will pick up modestly for the balance of this year and through 1994. Even so, the recovery will continue at a sluggish pace, far below the pace associated with prior upturns.

The unusual nature of the latest recession has reduced the correlation between the national situation and California's economy. The unusual breadth and severity of the downturn in the state and data comparability issues have led the Department to deemphasize the U.S.-California linkage. In effect, while the national economic forecast is of interest, it is not the primary basis of the outlook for California which follows.

COMPARISON OF BUDGET AND MAY ECONOMIC FORECASTS
(Percent change from prior year except as noted)

	1993		1994	
	Budget	May	Budget	May
United States				
Real GDP	1.8	2.7	2.6	2.4
Personal income	4.0	5.1	6.0	5.0
Corporate profits	11.3	9.3	8.3	7.4
Employment	0.5	1.1	1.7	1.4
Unemployment rate (%)	7.2	7.0	6.9	7.2
CPI	3.2	3.3	3.3	3.3
New car sales (mn)	8.7	8.7	10.1	10.1
Housing starts (th)	1,215	1,248	1,325	1,310
California				
Personal income				
$ Billions	663.5	665.5	701.9	696.7
% change	3.5	3.7	5.8	4.7
Employment				
Thousands	12,022	12,073	12,169	12,189
% change	-1.0	-0.6	1.2	1.0
Unemployment rate (%)	10.1	9.7	9.5	9.8
Housing starts (th)	115	108	144	145
June-to-June CPI (%)	3.7	3.5	3.7	3.7

Revenue

GENERAL FUND REVENUE FORECAST
Reconciliation with the Governor's Budget Forecast
($ In Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
FY 91-92				
Personal Income Tax	$17,240	$17,240		
Sales & Use Tax	16,146	16,146		
Bank & Corporation Tax	4,494	4,494		
Insurance Tax	1,167	1,167		
Other Revenues & Transfers	2,979	2,979		
Total	**$42,026**	**$42,026**		
FY 92-93				
Personal Income Tax	$16,760	$17,210	$450	2.7%
Sales & Use Tax	15,110	15,050	-60	-0.4%
Bank & Corporation Tax	4,850	4,680	-170	-3.5%
Insurance Tax	1,212	1,181	-31	-2.6%
Other Revenues & Transfers	3,010	2,903	-107	-3.6%
Total	**$40,942**	**$41,024**	**$82**	**0.2%**
Change from FY 91-92	-$1,084	-$1,002		
% Change from FY 91-92	-2.6%	-2.4%		
FY 93-94				
Personal Income Tax	$16,900	$17,610	$710	4.2%
Sales & Use Tax	14,256	14,180	-76	-0.5%
Bank & Corporation Tax	4,900	4,720	-180	-3.7%
Insurance Tax	1,223	1,176	-47	-3.8%
Other Revenues & Transfers	2,596	2,498	-98	-3.8%
Total	**$39,875**	**$40,184**	**$309**	**0.8%**
Change from FY 92-93	-$1,067	-$840		
% Change from FY 92-93	-2.6%	-2.0%		
FY 94-95				
Personal Income Tax	$18,240	$18,610	$370	2.0%
Sales & Use Tax	15,431	15,030	-401	-2.6%
Bank & Corporation Tax	4,840	4,780	-60	-1.2%
Insurance Tax	1,270	1,270	0	0.0%
Other Revenues & Transfers	2,761	2,610	-151	-5.5%
Total	**$42,542**	**$42,300**	**-$242**	**-0.6%**
Change from FY 93-94	$2,667	$2,116		
% Change from FY 93-94	6.7%	5.3%		

The 1993-94 Governor's Budget projected an estimated $88.4 million of Tidelands Oil Revenue based on $15.75 per barrel. Due to the decline in oil prices to approximately $13.70 per barrel, the most recent projection has declined to an estimated $77.4 million. The decline in revenues is the result of a natural decline in production, various platform closures and decline in price per barrel of oil.

Realignment Revenues

In the current year, realignment revenues are projected to be $27 million higher than projected in the Governor's Budget. The change is due entirely to a change in the estimated sales tax receipts; the estimate of motor vehicle license fee revenues is unchanged. This adjustment is essentially technical in nature.

In 1993-94, realignment revenues are projected to be $36 million higher than estimated in the Governor's Budget. As with the current year projection, only sales tax revenues are expected to change, and only as a result of technical estimation factors. The total realignment revenue projected for 1993-94 is now $2.212 billion, including $11 million in enhanced motor vehicle license fees which will be deposited in the Vehicle License Fee Collection Account.

Expenditures

GENERAL FUND EXPENDITURES BY AGENCY
($ In Millions)

AGENCY	1992-93	1993-94	1994-95
NON-PROPOSITION 98:			
Legislative, Judicial, Executive	$1,369	$1,286	$1,285
State and Consumer Services	274	269	270
Business, Transportation & Housing	194	171	215
Trade and Commerce	24	36	36
Resources	656	647	688
Environmental	86	83	98
Health and Welfare	13,093	12,929	13,742
Youth and Adult Correctional Agency	3,017	3,270	3,519
K-12 Education	1,331	1,364	1,543
Higher Education	3,795	3,587	3,753
General Government	153	665	1,066
Tax Relief	804	441	417
Total -- Non-Proposition 98	**$24,796**	**$24,748**	**$26,632**
PROPOSITION 98:	$16,289	$13,464	$14,421
TOTAL -- ALL GENERAL FUND	**$41,085**	**$38,212**	**$41,053**

Current Year Medi-Cal spending from all funding sources is estimated to reach $13,901,451,000, up by $248,845,000 since the November Medi-Cal Estimate of $13,652,606,000.

The Budget Year Medi-Cal General Fund estimate for Item 4260-101-001 has changed from $5,325,259,000 to $5,464,535,000, an increase of $139,276,000. The capital debt payments Item 4260-102-001 has risen by $2,044,000, from $4,880,000 to $6,924,000.

As in the Current Year, caseload estimates have been lowered. The average monthly Medi-Cal caseload for 1993-94 is projected to be 5,359,100 -- 72,400, or 1.3 percent, lower than estimated in the Governor's Budget. This basic caseload reduction is expected to save the General Fund $144.3 million. Principal items offsetting these savings, however, will be higher costs for managed care capitation payments, $18.6 million; long term care rates, $75.0 million; delay, until October 1, of the elimination of specified optional benefits, $42.8 million and the effect of a Developmental Services Community Living Options Initiative, $19.3 million.

The Administration's proposals to secure $827.4 million in federal funding for immigration-related Medi-Cal expenses have met with some success. The President's budget proposal includes $400 million nationwide for Medicaid costs of undocumented persons, and California is estimated to receive $240 million of that amount. In addition, the proposed federal budget includes SLIAG funds previously not provided, but promised in the Immigration Reform and Control Act of 1986, and that funding is expected to satisfy the State's outstanding Medi-Cal claims of some $268.1 million. The State will also continue to seek federal matching funds for perinatal care for undocumented persons, and this funding is estimated to offset General Fund expenditures of $41.2 million.

Other General Fund savings proposals include: $87.3 million related to hospital contract rates; $20.9 million (plus a $20.3 million reappropriation) from Proposition 99 funds; and $50 million from SB 855 intergovernmental transfers. Given earlier actions by the Legislature, the Budget Year proposal for a risk-sharing pilot project with CIGNA has been withdrawn for a savings of $6.8 million.

Budget Year Medi-Cal spending from all funding sources is estimated to reach $14,791,739,000, down by $140,768,000 since the November Medi-Cal Estimate of $14,932,507,000. (As in the Current Year, these totals do not include non-federal Medicaid spending exhibited in the budgets of local government or other departments, e.g., county targeted case management, county Short-Doyle match, and the Personal Care Option administered by Social Services.)

Genetically Handicapped Persons Program (GHPP)

GHPP caseload related costs have decreased by $295,000 due primarily to a lower than expected base estimate for Hemophilia category.

Child Health Disability Prevention Program (CHDP)

The total estimated number of screens in CHDP is being revised down from 1,049,000 to 977,200 resulting in corresponding decreases in caseload-related costs of $2,395,000 General Fund and $3,861,000 from the Health Education Account of Cigarette and Tobacco Surtax Fund. In addition, it is proposed that CHDP introduce Tetramune that combines two current vaccines for a savings of $992,000. Also, CHDP will realize savings of $660,000 due to the direct bulk purchase of the measles, mumps, rubella vaccine. In total, the General Fund change is a decrease of $4,047,000.

Bulk Purchase of Vaccines

DHS is planning to begin implementation of the bulk purchase of vaccines in the CHDP program and Early Periodic Screening Diagnosis and Treatment (EPSDT) program in August 1993. The estimated General Fund savings of $1,772,000 ($660,000 in CHDP and $1,112,000 in EPSDT) from the bulk purchase of the measles, mumps, rubella vaccine is proposed for expansion of immunization services to low-income children in non-profit Community Health Centers.

Department of Developmental Services

1992-93	-$3.3
1993-94	-$21.8

In the current year, an increase in Medicaid Waiver funds above the amount previously budgeted will result in a savings of $3.3 million in General Fund. This amount is proposed to be reappropriated in 1993-94.

In the budget year, regional center costs are lower by $1.7 million due to a projected caseload reduction of 816 clients and a re-estimate of the costs associated with these clients. In addition, an increase in federal waiver funds of $0.6 million and an increase of $0.2 million in Program Development Funds will permit a reduction of the same amount in regional center General Fund expenditures. Finally, a shift of 634 clients from regional center programs to Work Activity and Supported Employment programs will be accomplished by a transfer of $0.6 million from the Department of Developmental Services to the Department of Rehabilitation. Thus, the total General Fund reduction in the budget year for regional centers is projected to be $3.1 million.

In the developmental centers, the Department projects a decrease of $0.2 million in its own budget and $1.9 million in Medi-Cal General Fund due a system wide population decline of 209 clients. Additionally, the Department projects an increase of $0.5 million in its own budget and $2.3 million in the Medi-Cal General Fund budget to fund 228 staff for

As part of its plan to stabilize Lanterman-Petris-Short state hospital rates, DMH is proposing to work jointly with the counties to develop new sources of patient-generated revenues. In order to permit counties to use all new revenues to offset rate increases, language is being proposed to specify that, above a base level of revenue, which will continue to flow to the General Fund, all revenue will be treated as reimbursements from counties for State hospital costs. For 1993-94, this base level has been determined to be $8 million.

Proposition 98 expenditures for the Early Mental Health program will also be reduced in the budget year by $10 million. This reduction reflects a need to meet base funding obligations for K-12 Education and is consistent with May Revision estimates of enrollment and Prop 98 revenues.

Department of Rehabilitation

Current year expenditures are down from the Governor's Budget projection by $0.2 million This decrease is the result of shifting 349 clients from the Habilitation program, funded with 100 percent General Fund, to the Vocational Rehabilitation Program which is split funded, with 78.7 percent federal funds and 21.3 percent General Fund.

1992-93	-$0.2
1993-94	-$0.2

Budget year expenditures are estimated to decrease by $0.2 million. This reduction is the net of the following changes. First, projected caseload for base Work Activity and Supported Employment programs is lower by 412 clients creating a General Fund reduction of $1.5 million. Second, caseload in the Vocational Rehabilitation Work Activity and Supported Employment programs is projected to increase by 1,645 clients. As a result, costs are estimated to increase by $1.3 million to fund an additional 15.5 staff and purchase the services associated with this caseload revision.

Department of Social Services

Current Year

Expenditures for the Department of Social Services in the current year are estimated to decrease by $60 million.

1992-93	-$60.0
1993-94	$246.7

Aid to Families with Dependent Children

In the Aid to Families with Dependent Children (AFDC) program, expenditures are expected to be $32.9 million above the level reflected in the Governor's Budget. Changes in estimated expenditures reflect lower caseload growth (-$27.4 million) and an extension of Emergency Unemployment Compensation (-$5.3 million). Caseload in the AFDC program, excluding the effect of welfare reform, is now expected to increase by 6.8 percent, compared to the estimate of 7.6 percent in the Governor's Budget. Nevertheless, children only cases continue to increase at a rate (16.3 percent) that far exceeds the rate of increase for

grants instead of providing an equal amount of Food Stamps to beneficiaries ($14.4 million).

Expenditures in the In-Home Supportive Services (IHSS) program are $26.8 million below the Governor's Budget. This is the result of a reduction of $22.4 million in caseload, a re-estimate of the current year costs of lawsuits (-$8.0 million), and an increase of $8.0 million in the cost of implementing the Personal Care option, which uses Medi-Cal funds in the IHSS program. These additional costs reflect a decrease in federal funds for protective supervision pursuant to Chapter 7, Statutes of 1993, and the recognition of additional county costs related to provider enrollment, required documentation, and coordination with medical personnel. These costs have reduced the savings from implementing Personal Care from $16 million to $8 million.

Budget Year

In the budget year, expenditures are estimated to increase by $246.7 million.

Aid to Families with Dependent Children

In the AFDC program, expenditures are expected to increase by $427.7 million. This estimate includes reductions for lower AFDC caseload growth (-$48.7 million) and the extension of Emergency Unemployment Compensation (-$26.8 million). Although caseload growth (excluding the effect of welfare reform) is lower (5.4 percent) than projected in the Governor's Budget (6.1 percent), growth in children only cases (11.9 percent) continues to exceed growth in cases with aided adults (2.9 percent). Other changes in the AFDC program include costs for delayed implementation of welfare reform ($206.9 million); reduced savings for the changes enacted by Chapter 722, Statutes of 1992 (SB 485) as a result of the Green lawsuit ($22.5 million); reduced savings for various proposals to deter fraud in the AFDC program ($13.9 million); and the unavailability of federal funds for refugees or the children of undocumented persons ($251 million).

In County Administration of welfare programs, expenditures are expected to increase by $19.5 million. This increase is a result of delayed implementation and other changes to the estimate for welfare reform ($11 million), as well as the unavailability of federal funds for refugees and the children of undocumented persons ($37 million). These costs are partially offset by reduced caseloads (-$6 million), not terminating the practice of increasing the SSP portion of the grant instead of providing an equal amount of Food Stamps in the SSI/SSP program (-$7.8 million), an estimate of the amount of funding counties will claim in the Child Support Enforcement program (-$5 million), and an estimate of the amount of funding counties will claim in the AFDC and Food Stamps programs ($-10 million).

The delay in implementation of welfare reform also resulted in savings in the Child Care program (-$11.3 million). A re-estimate of the General

In the Adoptions Assistance Program (AAP), changes are the result of a reduction in the average grant payment (-$6.3 million). Chapter 722, Statutes of 1992 imposed a cap on AAP payments by limiting the maximum payment to the basic foster care family home rate of $426.

Adult Programs

In the Budget Year, SSI/SSP expenditures are $148.3 million below the level reflected in the Governor's Budget. The Governor's Budget proposed not passing through the January, 1994 SSI cost-of-living adjustment (COLA). The May Revision continues this proposal and, in addition, proposes a further grant reduction effective September 1, 1993. This reduction will set SSP payments at a level which is above the minimum allowable under federal law by the amount of the January, 1994 SSI COLA. Therefore, not passing through the COLA will reduce the SSP portion of the grant to the federal minimum in January, 1994. The combined effect of these two reductions in the payment standard is an additional savings of $197.4 million compared to the Governor's Budget. These actions preclude the savings proposal previously reflected in the Governor's Budget to terminate the cash-out of Food Stamps ($59.6 million). In January, 1995, the federal SSI COLA will be passed through. In addition, federal funds previously anticipated for grants to refugees are no longer included ($16.0 million). Funds are included for payments in the Zebley v. Sullivan case ($8.0 million). Finally, caseload growth which was estimated at 7.4 percent in the Governor's Budget, is now estimated at 6.3 percent (-$34.1 million).

Expenditures in the IHSS program are $0.8 million below the Governor's Budget projection. This change is the result of a reduction in caseload (-$16.3 million), an increase in the cost of implementing Personal Care ($25.0 million), and an increase in Title XX funds reflected in this program which offsets General Fund (-$10.8 million).

1994-95 EXPENDITURE ASSUMPTIONS

Total General Fund expenditures for fiscal year 1994-95 are estimated to be $126.8 million below the 1993-94 level. Changes in AFDC and SSI/SSP, the two largest entitlement programs, are discussed below. In other Department of Social Services programs, expenditures for 1994-95 are $55.6 million above 1993-94 estimates.

Aid to Families with Dependent Children

In the AFDC program, 1994-95 expenditures are expected to decrease by $277.3 million. Increased expenditures attributable to caseload growth ($80.8 million) are expected to be offset by savings from the continuation of the Governor's Welfare Reform proposal (-$271.4 million), and the implementation of an additional reduction in grants on January 1, 1995, for those recipients who have been on aid a total of five years or longer

For 1993-94, the Governor's Budget supported a June 30, 1994 institutions population of 119,209. The May Revision projects this year end population to increase by 3,108 to 122,317 inmates, due to the increasing rate of new felon admissions to prison, at a cost of $48,373,000. The May Revision also projects a year end paroles population of 93,659, or 4,151 more parolees than the 89,508 parolees previously anticipated at a cost of $7,001,000. The effect of these budget year population changes is an increase of $55,374,000 including support for the activation of Ironwood State Prison (Riverside II) in January 1994. Partially offsetting these costs will be a reduction in lease payment costs of $8,099,000. Recent sales of "refunding bonds" by the State Treasurer's Office has refinanced the debt service amounts required to retire bonds sold to build five institutions. This action will result in ongoing savings of $1,371,000. Additional one-time savings of $6,728,000 million will also result from excess interest earnings and other balances available as reimbursements from the Mule Creek, Corcoran and Del Norte construction projects to offset the lease payments required for the budget year. The combined impact of these changes will increase costs by $47,275,000.

1994-95 EXPENDITURE ASSUMPTIONS

For 1994-95, the Department of Corrections projects a year end institutions population of 130,058, or an increase of 7,741 over 1993-94. The projections also anticipate a year end paroles population of 100,095, or 6,436 more parolees than the prior year. This increased population results from the continuing increase in prison admissions and is estimated to cost approximately $160 million, including funds to activate the new state prison in Fresno County and approximately $35 million for increased prison lease payments.

Department of the Youth Authority

The 1992-93 reduction of $659,000 results from a projected year end institutions population decrease of 73 wards below the 8,729 wards projected in the Governor's Budget. The paroles population is expected to increase slightly by year end after holding below the budgeted level for most of the year.

1992-93 -$0.7
1993-94 -$2.3

The 1993-94 institutions population is projected to decrease by 198 wards below the previously projected population of 9,092 for a savings of $2,385,000. These savings are partially offset by a paroles population increase of 122 wards above the previously budgeted level of 6,489 wards, at a cost of $110,000. The total reduction for the budget year is $2,275,000.

K-12 Expenditures

1992-93	$85.0
1993-94	$235.0

The expenditure changes for K-12 Education primarily reflect satisfying the revised Proposition 98 funding guarantee, while also maintaining the 1991-92 fiscal year overall K-12 funding per pupil in 1992-93 and 1993-94, and maintaining prior year general purpose funding per pupil in 1993-94.

1992-93 Expenditures: As noted above under Proposition 98, the current year Proposition 98 appropriations exceed the guarantee by $315 million, rather than the $525 million level in January. The May Revision proposes to revert $147 million of such appropriations from school apportionments in order to maintain $4,185 per pupil. The drop in the reversion amount from the January level of $315 million, is primarily due to the downward revision in anticipated property taxes although ADA growth is also higher. The recapture of $70 million, and reclassification to a loan, reduces expenditures but not cash outlay, by the same amount. In the current year, the May Revision also proposes to spend $7.6 million in Child Care carryover funds.

1993-94 Expenditures: ADA, originally estimated to increase by 1.55 percent, is now expected to increase by 1.65 percent. With the current year ADA also revised upward, the impact is greater than the growth figures alone would indicate, resulting in a $72 million increase in 1993-94 K-12 apportionments. In order to maintain both the $4,185 overall K-12 funding per pupil as well as maintain general purpose funding per pupil, the May Revision proposes to increase the non-Proposition 98 loan for general purpose use by $24 million, from $540 million in January to $564 million. Funding for special education has been augmented by $13.8 million for formula increases resulting from changes in the current year. Special education also is proposed to be separated from the mega-item, and $3.8 million is proposed to be allocated in 1993-94 for the 1992-93 drop in property tax revenues.

The decreased property tax revenue estimate of about $182 million for school districts, county offices of education, and special education, has been compensated through increased General Fund expenditures for those programs. Since the increased General Fund expenditures to fill behind the lower taxes accounted for most of the additional required appropriations to satisfy the revised Proposition 98 guarantee, it was necessary to redirect funds from categorical programs to K-12 apportionments in order to maintain the prior year general purpose funding per pupil. This includes a redirection of $35 million in statutory growth from the mega-item, $46.6 million additional from the mega-item, $10.3 million from adult education statutory growth, $57.3 million from mandates (deferral of prior year claims totalling $42 million, and elimination of mandates totalling $11.9 million, as well as a reduction in 1993-94 cost estimates of $3.4 million), and $13.9 million from year-round-schools.

Apportionment, (2) an increase in the rate of growth of the State's adult population from 1.6 to 1.69 percent and (3) a technical correction to the base attendance level used to calculate growth.

A net increase of $44.5 million is included to reflect General Fund apportionments necessary to offset the estimated net changes in student fee revenues (-$9.1 million), property tax revenue (-$35.9 million), federal oil and mineral royalties ($.2 million) and additional funds available for the Foster Parent Training Program ($0.3 million).

An increase of $17.8 million is needed due to a lower estimate of General Fund savings from the Governor's proposal to withdraw funding for degree holders. The General Fund savings included in the Governor's Budget was $38.9 million.

An increase of $58.9 million is included to reduce the unallocated reduction to apportionments due to a lower estimate of net fee revenue available to offset the General Fund from the proposal to raise fees for all students from $10 up to $30 per unit.

A reduction of $83.9 million in General Fund apportionments is included to reflect savings, not included in the Governor's Budget, from student attrition occurring in 1992-93 and 1993-94. Of the total, $56.8 million is due to the attrition of degree holders in 1992-93 due to the increase of fees from $6 to $50 per unit. While the legislation enacting this provision allowed for continued funding in 1993-94, the May Revision proposes deletion of all funding for most degree holders starting in 1993-94. The balance of $27.1 million is from estimated attrition due to the proposal that fees for all students be increased in 1993-94 from $10 per unit to up to $30 per unit. However, local districts will be allowed to retain approximately 85 percent of the total workload savings associated with the attrition from the up to $30 per unit fee.

State Teachers' Retirement System

The 1993-94 Governor's Budget reflected a General Fund transfer of $777.4 million to the Teachers' Retirement Fund. The transfer amount for Purchasing Power contributions has been reduced by $17.5 million to reflect an updated estimate of 1992-93 fiscal year payroll data, and the transfer amount for Elder Full Funding contributions has been reduced by $1.6 million to reflect actual 1992 calendar year payroll data.

1992-93	--
1993-94	-$19.0

resulting in a General Fund savings of approximately $0.4 million. Budget year costs for these programs have been revised upward by $3.3 million.

Department of Justice

In 1993-94 the department will provide approximately 1.5 personnel years of additional legal services and incur additional costs for consultant services and expert witnesses associated with the state's defense costs in the ABC Unified School District v. the State of California school finance litigation. Related language would prohibit the expenditure of these funds for costs other than in defense of this case and without the approval of the Department of Finance.

1992-93	--
1993-94	$0.8

General Obligation Bond Debt Service

The 1993-94 Governor's Budget projected expenditures of $1.501 billion for General Obligation (G.O.) Bond debt service for the 1992-93 fiscal year. The Governor's Budget also projected expenditures of $1.590 billion for the 1993-94 fiscal year. The 1993-94 debt service estimate assumed the passage of legislation to amend Section 13302 of the Government Code which would change the method of accounting for debt service on general obligation bonds from the current accrual basis to a cash basis.

1992-93	-$33.0
1993-94	-$107.0

General Obligation Bond debt service expenditures for 1992-93 are now estimated to be $1.468 billion, for a savings of $33 million. In 1993-94, expenditures based on the cash basis of accounting are estimated to be $1.483 billion, for a savings of $107 million.

Together, the revised two-year estimate of debt service expenditures will result in a General Fund savings of approximately $140 million.

Additionally, General Obligation Bond debt service expenditures for the 1994-95 fiscal year are currently estimated to be $1.821 billion.

Payment of Interest on General Fund Loans

The proposed 1993-94 Governor's Budget anticipated General Fund expenditures of $220 million annually for 1992-93 and 1993-94 for the payment of interest on external borrowing.

1992-93	-$35.0
1993-94	$35.0

Interest costs on external borrowing for 1992-93 are now estimated to be $185 million, for a savings of $35 million. In 1993-94, based on a higher level of external borrowing, interest costs are currently estimated to be $255 million, or an increase of $35 million.

Together, the revised two-year estimate of costs for external borrowing will result in no net increase to the General Fund.

State Appropriations Limit

STATE APPROPRIATIONS LIMIT

1993-94 Limit Calculation:

Pursuant to Article XIIIB of the California Constitution, the 1993-94 State Appropriations Limit (SAL) is estimated to be $36.599 billion or 4.54 percent greater than the Limit in 1992-93. This is $360 million higher than the $36.239 billion estimated for 1993-94 in January. This increase is due to changes in the following factors:

	January	May Revision
· Per Capita Personal Income	1.49%	2.72%
· State Civilian Population	2.09%	1.85%
· K-14 Average Daily Attendance	1.84%	1.65%

The SAL for 1992-93 did not change since it was statutorily determined by Section 12.00 of the 1992 Budget Act.

***SAL Room/Surplus*:**

Proposed 1993-94 appropriations subject to the Limit are $3.710 billion under the Limit. This is $875 million higher than the room for 1993-94 as estimated in the Governor's Budget in January. This change is primarily the result of a decrease in Federal Funds, which increases the amount of appropriations excluded from the Limit.

Local Government

Restructuring the State-Local Relationship

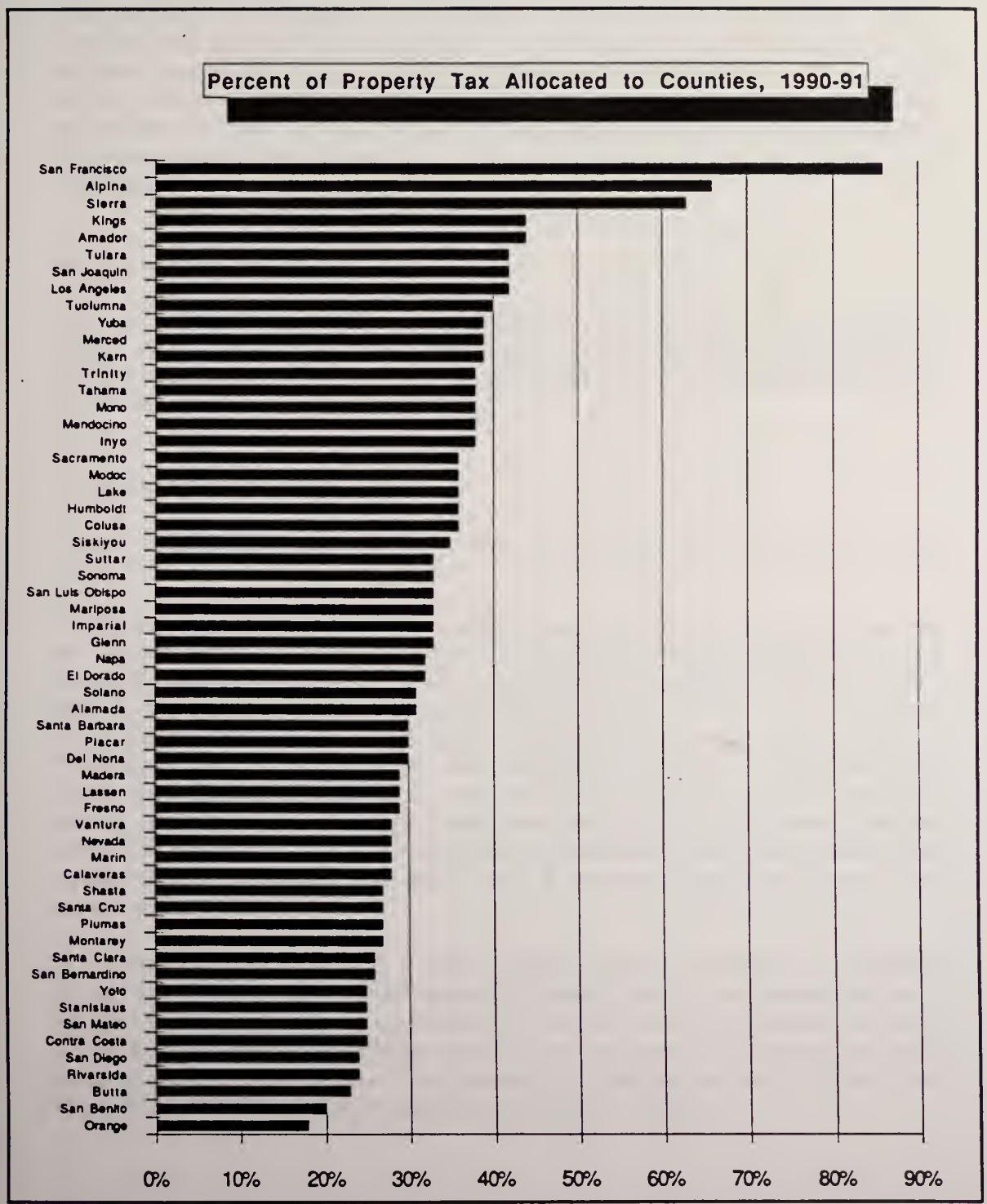
Primary Features of the Governor's Proposal on Local Government

- *The May Revision continues to propose a $2.6 billion property tax shift from local agencies to school districts located within the same county in which the tax was collected.*
- *This revenue shift should be allocated in proportion to the share of Proposition 13 bailout received by cities, counties and special districts.*
- *Property tax reductions to individual local agencies should address historical inequities in the allocation of the property tax, and provide a minimally adequate local revenue base for health, law enforcement, and judicial programs.*
- *With certain exceptions, property tax revenues currently allocated to special districts would be allocated instead to city and county general funds. Local officials would determine spending priorities.*
- *The state should repeal all state mandates on local programs not related to public safety, unless specific funding is provided by the state. This additional flexibility is needed to allow local governments to give appropriate priority to public safety.*
- *Public safety is and should be the first priority of local government, but local officials should have the sole power to determine the appropriate level of local public safety services.*
- *Under current law, county governments may impose a countywide sales tax increase of up to 1/2 cent for general purposes with approval of a majority of local voters. To date, two counties have imposed this tax, without any apparent legal impediments.*

The Proposition 13 Bailout

Following voter approval of Proposition 13 in 1978, the state provided substantial fiscal relief to counties, cities, and special districts. An initial program in 1978-79 was followed by a more permanent program in 1979-80, through enactment of AB 8 (L. Greene) and related legislation. This legislation assisted local agencies by shifting property tax revenue from school districts to cities, counties and special districts in a manner that provided local agencies 90 percent of the property tax revenue they had received in the three fiscal years prior to Proposition 13. In addition, the state assumed substantial responsibility for a variety of county-financed health, welfare, and social services programs.

According to the Legislative Analyst, the value of the Proposition 13 bailout program had grown to $6.9 billion by 1992-93, of which $2.8 billion consisted of property tax shifts. The 1992 budget agreement reduced the property tax component of the AB 8 property tax shift by $1.3 billion, of which $1.1 billion was permanent. The estimated value of remaining AB 8 bailout in 1993-94 is estimated at $6.1 billion.


Percent of Property Tax Allocated to Counties, 1990-91
San Francisco
Alpine
Sierra
Kings
Amador
Tulare
San Joaquin
Los Angeles
Tuolumne
Yuba
Merced
Kern
Trinity
Tehama
Mono
Mendocino
Inyo
Sacramento
Modoc
Lake
Humboldt
Colusa
Siskiyou
Sutter
Sonoma
San Luis Obispo
Mariposa
Imperial
Glenn
Napa
El Dorado
Solano
Alameda
Santa Barbara
Placer
Del Norte
Madera
Lassen
Fresno
Ventura
Nevada
Marin
Calaveras
Shasta
Santa Cruz
Plumas
Monterey
Santa Clara
San Bernardino
Yolo
Stanislaus
San Mateo
Contra Costa
San Diego
Riverside
Butte
San Benito
Orange
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%

The May Revision proposes instead that redevelopment agencies be required to transfer $65 million in property tax revenues annually to school districts. This amount is equivalent to 15 percent of redevelopment agencies' 1992-93 support and administrative expenses. In addition, the administration would support legislation reforming redevelopment law and practices. The goal of these reforms should be to strengthen the powers of redevelopment agencies to address the most serious forms of urban blight, while providing substantial limitations on redevelopment as a financing mechanism for developing non-blighted areas.

Repeal of Mandates

The state should repeal all state mandates on local programs not related to public safety, unless specific funding is provided by the state. This additional flexibility is needed to allow local governments to give appropriate priority to public safety.

Local Revenue Capacity

Under current law, counties have two mechanisms for levying local sales taxes.

Under Rev. & Tax. Code § 7285, counties may impose a countywide sales tax at a rate of up to 1/2-cent, by a two-thirds vote of the governing body and a majority vote of local voters. Two counties have successfully levied this tax. Inyo County obtained voter approval in June 1988, and the tax has been in effect since October 1, 1988. Del Norte County voters approved such a levy in November 1992, which will go into effect July 1, 1993. In addition, San Bernardino County has placed a proposal to levy a related sales tax before its voters June 8, 1993. Although some local officials have expressed concern over the legality of the voter approval requirement, no county which has obtained voter approval has ever faced a successful legal challenge to its power to levy this tax.

In addition, Rev. & Tax. Code § 7288.3 permits local public finance authorities, consisting of county and school district officials, to levy a local sales tax rate of up to 1/2-cent for support of education, health, crime prevention, and drug abuse services with a two-thirds vote of the members of the authority and a majority vote of local voters. This authority is available to local officials upon expiration of the temporary state sales tax on July 1, 1993.

between local agencies and schools, the impact of the Bradley-Burns sales tax on local land use decisions, and establishment of appropriate financial incentives for local agencies to work cooperatively on common problems.

While undertaking this restructuring is imperative, the administration believes that making the 1993-94 budget contingent upon enactment of a substantial state-local realignment could inadvertently produce policy changes that are poorly designed and implemented. In addition, the administration is seriously concerned that an effort to tie the budget to a state-local realignment could jeopardize timely enactment of a balanced budget. For these reasons, the May Revision continues to rely on a property tax shift from local agencies to school districts as a component of the 1993-94 budget. The administration is committed to working cooperatively with the Legislature and with local governments to design and implement a restructuring of state-local programs and revenues following enactment of the 1993-94 budget.